

INDONESIA AND GLOBALIZATION

Author(s): Ann Marie Murphy

Source: *Asian Perspective*, Vol. 23, No. 4, Special Issue on Globalization in East Asia (1999), pp. 229-259

Published by: [Lynne Rienner Publishers](#)

Stable URL: <http://www.jstor.org/stable/42704240>

Accessed: 03-03-2016 05:37 UTC

---

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.



Lynne Rienner Publishers is collaborating with JSTOR to digitize, preserve and extend access to *Asian Perspective*.

<http://www.jstor.org>

## INDONESIA AND GLOBALIZATION\*

Ann Marie Murphy

*This article explores Indonesian attitudes and policy responses toward globalization. In Indonesia, globalization is perceived as an objective condition of international life that structures policy choices for state and societal actors. Opinion varies widely, however, over whether globalization is a positive or negative force. Given these differences, it is argued that the most fruitful way to understand globalization in Indonesia is to analyze the responses of state and societal actors toward the three values promoted in the current era of globalization: liberal capitalism; democracy; and respect for human rights. The responses of the Suharto, Habibie, and Wahid administrations to global pressures for economic liberalization, democracy, and human rights are reviewed to illustrate that Indonesian policy toward globalization has varied over time. The article concludes that the rise of an anti-Western nationalism combined with a more open political environment may make it more difficult for Indonesia to adopt liberal economic policies in the future.*

---

\* The author would like to thank John Bresnan, Bridget Welsh, and Sam Kim for comments on an earlier version of this article.

### Globalization: An Inescapable Force

*Whether we like it or not, whether we are prepared for it or not, we will be drawn into that implacable arena of global competition. We must prepare for the inevitable.*

— Former President Suharto<sup>1</sup>

*The deepening of Indonesia's incorporation into the world economy means that the state can no longer be the ever reliable benevolent patron to favorite cronies.*

— Ariel Heryanto, sociologist<sup>2</sup>

Indonesia has benefited tremendously and suffered severely from globalization. The New Order policy of integrating Indonesia into the global economy and progressively liberalizing its domestic market produced spectacular economic growth of almost 7 percent per annum for over thirty years, quadrupling the average annual income in one generation. But globalization struck back during the Asian financial crisis (AFC) when the rupiah nosedived and the economy contracted by almost 14 percent, the sharpest decline of any economy since the Great Depression. The economic crisis triggered a political one, toppling President Suharto after thirty-two years in power and elevating his long-time protege, Vice President B.J. Habibie, to the nation's highest office. Habibie's refusal to prosecute political allies accused of corruption led the International Monetary Fund (IMF) and the World Bank to stop aid disbursements and the Indonesian public to demand his removal. The recent election of prominent reformers Abdurrahman Wahid and Megawati Sukarnoputri opens the door to a new era of political reform in Indonesia and a new policy toward globalization.

This article explores Indonesia's often testy reaction to globalization. In the next section, Indonesian perceptions of globalization are discussed. In Indonesia, globalization is viewed largely as an economic phenomenon; a seemingly inexorable process from which it cannot escape. Globalization is therefore perceived as an objective condition of international life that structures the policy choices facing Indonesian state and societal actors.

Indonesians may view globalization as an inescapable force, but they differ over whether it is a positive or negative one.

Globalization enthusiasts argue that opening and deregulating Indonesia's economy will spur efficiency, promote economic growth, and raise living standards. Critics of globalization dispute this and argue that the costs associated with globalization—the loss of state sovereignty, and an economy dominated by foreigners and Indonesians of Chinese descent—are too high for Indonesia. Given these differences, it is argued that the best way to understand Indonesian perceptions of globalization is to analyze Indonesian responses to global pressure on the three key values promoted during the current era of globalization: economic liberalism, democracy, and human rights. The article then reviews the responses of Indonesian state and civic leaders to global pressures for economic liberalization, democracy, and human rights during the Suharto, Habibie, and Wahid administrations.

The article concludes that Indonesia's policy response to economic globalization has been largely defensive.<sup>3</sup> This should not be surprising. The essence of liberal capitalism is increased competition and, as the data from *Table 2* in Samuel Kim's introductory essay makes clear, Indonesia is not well positioned to meet the challenges of the global marketplace. Indonesia achieved its strong economic growth by following the liberal prescriptions of global economic institutions such as the IMF and World Bank; these policies tended to be adopted in times of economic crisis when Indonesia was dependent on external aid. Perhaps the strongest policy link between the Suharto, Habibie, and Wahid administrations is a reluctant acceptance of the need to bow to global pressures by signing IMF agreements.

If the Suharto, Habibie and Wahid administrations share a common perspective toward economic globalization, they differ greatly in their responses to global pressures for democracy and human rights. Suharto strongly rebelled against such pressures, condemning them as unwarranted interference in Indonesia's domestic affairs. Habibie enacted significant reforms in the areas of democracy and human rights in an attempt to distance himself from Suharto and legitimize his regime domestically and internationally. However, Habibie's unwillingness to prosecute those accused of corruption in the Baligate scandal led the IMF and World Bank to suspend aid disbursements to Indonesia. And his inability to halt the Indonesian military's rampage in

East Timor led the United Nations and most of the international community to condemn Indonesia. By the end of Habibie's presidency, his attempts to resist globalization in the economic and human rights areas had led to Indonesia's estrangement from key global actors and institutions.

In late October 1999, Abdurrahman Wahid was elected Indonesia's fourth president. A long-time champion of democracy and human rights, President Wahid has made a commitment to clean government the rallying cry of his administration at the same time that he has reaffirmed Indonesia's commitment to its IMF agreement. It now appears that Indonesia is in congruence with the values of liberal capitalism, democracy, and human rights embodied in globalization. It is unlikely, however, that Indonesia will wholeheartedly embrace globalization in the future. Most Indonesians find liberal economics unappealing and have blamed globalization for the country's economic suffering. To date, the need to abide by the IMF agreement has limited Indonesian ability to craft its economic policy. But anti-capitalist sentiments combined with the upsurge in Indonesian nationalism triggered by the international condemnation of Indonesian actions in East Timor may lead to greater Indonesian resistance to globalization in the future.

### **Globalization in the Indonesian Context**

#### *Threat or Promise?*

Globalization may be the defining feature of the 1990s, but it remains a much contested subject. This is particularly true in Indonesia where globalization raises issues such as the proper role of the state in the economy and the potential loss of sovereignty that arouse deeply-held feelings among many Indonesians.

As Prawiro notes, globalization in Indonesia is not a well defined phenomenon.<sup>4</sup> Much of the domestic literature on globalization attempts to clarify what it means and what the implications are for Indonesia's state and society. For the most part, however, Indonesians tend to view globalization mainly as "an economic phenomenon."<sup>5</sup> Globalization is viewed as the increas-

ingly deep integration of national economies through the spread of market capitalism. Indonesians view globalization largely as an inevitable process from which Indonesian cannot escape. As a result, Indonesia has no alternative but to attempt to cope with or “survive” globalization.<sup>6</sup> Globalization, therefore, is largely viewed as an objective condition of international life that structures the policy choices facing Indonesian state and societal actors.

As to whether or not globalization benefits or hurts Indonesians, proponents, mostly Western-trained economists, argue that deregulating and opening Indonesia’s economy will spur efficiency, promote economic growth and raise living standards. Elite opponents of globalization warn, however, that,

globalization is a commercially driven process that tramples over national sovereignty and cultural norms. . . . if Indonesia opens the economy to free trade and investment, the whole country will be watching American videos on Japanese television while wearing Italian shoes as they eat food imported from Australia.<sup>7</sup>

Non-elite critics of globalization express their opposition differently. According to Keliat, the majority of Indonesians on the street have always viewed globalization with skepticism. This skepticism manifests itself not in public debate but in the fact that the term “*gombalization*” has long been used in place of globalization. *Gombal* refers to a piece of old cloth that is no longer used except to dust shoes or clean cooking utensils. The wide usage of this term can be seen as an act of silent protest against globalization by the masses that could trigger a future political backlash against it.

Between the proponents and critics is a large group that neither embraces nor resists globalization but reluctantly attempts to face its challenges. The main challenge is global economic competition. As the data in *Table 2* of Kim’s introductory essay make clear, Indonesia is the least competitive of the Asian countries surveyed. Indonesians across the political spectrum realize the gains from trade flow disproportionately to countries producing high-technology goods. Indonesia, however, is connected to the global economy largely as a producer of agricultural commodities and low-technology manufacturers, placing it at the bottom of the international economic hierarchy.

Indonesians are keenly aware that globalization produces winners and losers, not only between nations but also within them. Many Indonesians, including Defense Minister Juwono Sudarsono, fear that globalization will lead to greater inequality between nations. Juwono contends that the United States, Japan, and Germany will dominate an increasingly globalized economy due to their advantages in science and technology as well as their access to capital. Juwono's concern regarding globalization's effects on Indonesia's international standing is seconded by former Indonesian Foreign Minister Ali Alatas, who contends that "the negative aspects of globalization" include the "marginalization of developing countries from economic decision-making."

Indonesian fears that globalization will produce greater inequality between nations is reinforced by fears that globalization will lead to a similar inequality within the country. Within Indonesia, those best equipped to compete in an open, liberalized economy are the ethnic Chinese. Chinese Indonesians account for approximately 3 percent of Indonesia's population but are believed to control approximately 70 percent of its wealth. Many in Indonesia fear that increased competition at home would lead to an even greater concentration of wealth and power, which in turn would lead to social unrest.<sup>8</sup>

### *Globalization as Economic Policy*

Partly as a result of divergent opinions over whether globalization is a positive force to be embraced or a pernicious one to be resisted, Indonesia lacks a coherent globalization policy. As Rinakit and Soesastro observe, globalization is "pretty much a matter of rhetoric."<sup>9</sup> Unlike South Korea's well-defined *segyehwa* policy, the Indonesian government "has not gone beyond rhetoric in defining its responses to the challenge of globalization."<sup>10</sup> Instead, Indonesia's policy response to globalization is viewed as an extension of its economic reform and liberalization policies.

Many Indonesians would like to respond to the challenge of globalization by changing the country's comparative advantage and restructuring its domestic economy. Economic nationalists argue for state intervention in the economy to protect strategic

industries from foreign domination and promote industrialization so that it can leapfrog up the technology ladder. Much of the literature on globalization in Indonesia identifies a long list of issues Indonesia must address in order to enhance its competitiveness. That literature also includes a long list of complaints directed at the government for failing to take such steps. Furthermore, many Indonesians reject further opening and liberalization of the economy without some plan to redress the growing inequality of wealth within the country. Economic populists demand greater government involvement in the economy on behalf of small businesses and rural workers so that the poor underclass has a better chance of meeting Chinese competition.

But the dilemma for many Indonesians is that at the same time that state action is viewed as necessary for Indonesia to meet the challenges of globalization, the process of globalization erodes the power of the state. Juwono Sudarsono claims that in this era of globalization, "market authority has challenged state power for the high ground to determine public policy."<sup>11</sup> Even a staunch proponent of globalization concedes that the conflicting demands of the global marketplace and domestic constituents lead the Indonesia government to regard globalization with a fair degree of ambivalence. Prawiro describes this dilemma by noting that the duty of a government is to the nation; but globalization requires that nations conform to global conventions that may conflict with their domestic interests. These issues are "particularly sensitive" in Indonesia since many worry that "opening the economy too widely could lead to foreign domination."<sup>12</sup>

Although globalization tends to be viewed primarily in economic terms, the loss of sovereignty believed to occur as a result of globalization raise concerns in the security field as well. Globalization is viewed as a challenge to national integration, a major concern given Indonesia's extremely heterogeneous population. Indonesia's current Defense Minister outlines the globalization challenge in this way:

Indonesians are concerned that intense regionalization and globalization can inflame fragmentation within regions as well as within nation-states: ethnic animosity, racial antagonism, religious exclusiveness, narrow provincialism. These tensions, especially if linked to the control and distribution over economic resources and strategic minerals, can lead to the rekindling of mutual suspicion, out-



breaks of violence and mindless killings of innocent people in civil war. That is why Indonesians remain convinced that whatever the arguments in favor of intense regionalization and of globalization, government intervention and the regularity structures of the nation-state remain indispensable authority template to accommodate and resolve differing priorities among contending ethnic, religious, and provincial groups."<sup>13</sup>

The fear that globalization makes it easier for separatist movements to tap into global networks for support of their cause has been heightened by the decision of East Timor to secede from Indonesia and demands by Aceh and Irian Jaya for referenda in which they would be given a similar option.

### *No Consensus*

As the above discussion makes clear, there is no single Indonesian perspective of globalization. As a result, it is difficult to place Indonesia easily into one of Held's globalization models. Like the hyperglobalists, Indonesians tend to view capitalism and technology as the driving forces of globalization and the erosion of sovereignty as one of its consequences. But Indonesians certainly do not agree with the hyperglobalist view that globalization portends the end of the nation-state. Instead, they believe that globalization means enhanced competition between states.

But Indonesians also subscribe to a number of the skeptic's views. Although Indonesians tend to see the expansion of capitalism as a driving force of globalization, many also see the visible hand of the United States, the leading proponent of globalization, behind this expansion. Moreover, Indonesia agrees with the skeptic's contention that globalization is a process that will lead to the increased marginalization of the South. Those Indonesians who view globalization as nothing but Westernization would agree with the skeptics that it could lead to a clash of civilizations. But it would be hard to find an Indonesian who agrees with the skeptics that globalization is nothing but "globaloney."

Given the lack of consensus within Indonesia over the merits of globalization and the proper response to it, what is the best way to analyze Indonesian perceptions and policies toward globalization? I argue that it is to recognize that globalization is not simply a process of increasing global integration; it is also a trans-

mitter of values, ideology, and organizing principles. Globalization promotes the economic benefits of liberal capitalism, the political virtues of democracy, and the moral imperative of respect for human rights. All three of these values privilege the rights of individuals. If incorporated into government policy, they limit the power of state authorities to make decisions regarding the structure of their economy, the nature of their political regime, and their relationship to society. In Indonesia, some government leaders have rebelled against globalization precisely because they fear this potential loss of sovereign control.

### **Suharto's New Order: Defensive Policy Responses to Globalization**

#### *Economic Nationalists Versus Liberals*

When Suharto came to power in 1966, Indonesia was politically unstable, diplomatically isolated, and an economic basket case. Suharto was determined to reverse course. As the name "New Order" implies, the new regime defined itself in contradistinction to the old: Economic autarchy would be replaced by integration into the global economy; political order would replace political instability; and left-wing allies would be replaced with more conservative ones. Lacking Sukarno's nationalist credentials, Suharto set out to legitimize his regime through economic development. Unschooled in economics, Suharto turned to a group of Western-trained economists dubbed the "technocrats" who served as his interlocutors with international donors. The technocrats favored liberal economic policies and became the leading proponents of globalization in Indonesia.

The technocrats dismantled many of the government regulations of the Sukarno era and replaced them with the market mechanism to stimulate trade and production. A strong commitment to orthodox monetary policies brought inflation down quickly. In desperate need of capital and technology, Indonesia lifted restrictions on foreign investment. The policies implemented by the technocrats, and their close working relations with the IMF and the World Bank, reassured investors. Grateful that Indonesia had not been lost to communism, Western gov-

ernments created the Inter-Governmental Group on Indonesia (IGGI) to coordinate the large amounts of economic assistance that were critical in helping the Suharto government survive until the economy revived. The economic results were spectacular. By the late 1960s, the economy was growing, inflation had dropped substantially, and foreign investment had increased sharply. Since the early 1970s, economic output grew 7 percent annually and the average Indonesian's annual income more than quadrupled.<sup>14</sup> Social indicators likewise showed remarkable improvement. The percentage of Indonesians living in poverty fell from 61 percent in the mid-1960s to approximately 10 percent in the early 1990s.<sup>15</sup> Infant mortality dropped sharply while life expectancy and literacy increased sharply. This development gave Suharto a high degree of performance legitimacy.

Despite Indonesia's economic success, capitalist ideology was never widely embraced in Indonesia. Most Indonesians tended to equate capitalism with exploitation as a result of Indonesia's experience under Dutch colonialism, when Indonesia provided 30 percent of Dutch GNP while the majority of Indonesians remained impoverished. This anti-capitalist attitude is enshrined in Article 33 of Indonesia's Constitution, which declares that "branches of production important for the State and of dominating interest to the livelihood of the masses of the people have to be controlled by the State."<sup>16</sup> According to Sjahrir, "There is virtually no political or economic literature that could be categorized as being in favor of capitalism—or even competition, for that matter."<sup>17</sup>

This antipathy toward capitalism meant that the technocrats often faced competition in policy circles from proponents of economic nationalism and economic populism who greatly outnumber advocates of free market capitalism in Indonesia. Suharto, dependent on economic development to legitimize his rule, followed the technocrats' policies in times of economic crisis when Indonesia was dependent on foreign aid. Once the technocrats had restored the Indonesian economy to economic growth, however, policy decisions tended to shift in favor of the economic nationalists and populists.

During the mid-1980s, a sharp drop in oil prices meant that Indonesia had lost its most important revenue base and could no longer afford the economic nationalist strategy of import sub-

stitution to promote industries such as steel, petrochemicals, cement, and automobiles. The balance of power shifted toward the technocrats, who proposed an export-led strategy emphasizing low-wage and low-technology industries such as textiles. This was accompanied by measures to liberalize trade, investment, industry, and the financial sector.

But these liberal policies were vehemently opposed by a number of groups. Ginandjar Kartasamita, who would become the economic coordinating minister under President Habibie, represents a wide spectrum of Indonesian opinion when he portrays globalization as a threat to Indonesia:

there is rapid technological development as countries compete to outdo each other. Other countries are traveling with the speed of a car, but our technology is moving like a tri-shaw [becak] . . . This situation will leave us far behind, and if it persists our nation will have little resilience in international affairs . . . We will be vulnerable to political, economic, and cultural penetration by other countries . . . If we allow it [to happen], our sovereignty will come under threat. Our rights as an independent nation able to decide what is best for ourselves will cease to exist because we will be dependent on what other people decide.<sup>18</sup>

Populist critics often portrayed economic liberalization as something imposed on Indonesia by the West. According to one such critique, "economic liberalization became a precondition imposed by those who provided aid. Essentially, the aid thus obtained from the IMF, IGGI, and World Bank during the New Order period has been a subtle form of foreign capitalist intervention in the Indonesian economy."<sup>19</sup>

Opposition to the liberalization measures of the late 1980s was so strong that in his 1990 State of the Nation speech, Suharto felt compelled to respond to anti-capitalist critics that the deregulation policies would reduce the role of the state:

The measures of deregulation and de-bureaucratization are designed to put the . . . state in its most appropriate place for development. They are certainly not measures to abolish the role of the state. It is definitely not a step towards liberalism.<sup>20</sup>

*Economic Openness and Political Centralization*

Policy debates were difficult for the technocrats but they were vindicated by the results. The Indonesian economy boomed. Gross Domestic Product (GDP) grew an average of 8 percent a year between 1990 and 1996, exports grew at 12.7 percent over the same period, and investment growth averaged 16.4 percent. Foreign direct investment poured in and the banking system was awash in liquidity. But these figures masked problems that would manifest themselves during the AFC. The deregulation of the banking industry, without the institution of strong regulatory mechanisms, meant that many Indonesian companies went on a borrowing binge. In less than ten years, Indonesia's private banking and corporate sector would borrow \$80 billion. Despite the export boom, imports grew at an even faster rate and Indonesia's trade dependency ratio rose.<sup>21</sup>

The major political effects of globalization, however, were a perception of widening income inequality and a greater ethnic imbalance of wealth. Ironically, confirmation of longstanding suspicions of the degree of income inequality was made possible by the growth of the Jakarta Stock Exchange (JSE). As more Indonesian companies went public, they had to disclose their financial statements, which allowed others to calculate the net worth of many of Indonesia's top businessmen. The fact that an estimated 80 percent of the companies listed on the JSE were owned by Chinese Indonesians only reinforced popular perceptions of economic domination by the Chinese and gave rise to more vocal demands for government action to redress it.

In the end, it was neither the economic nationalists nor economic populists who posed the greatest challenges to the technocrats' liberal economic policies, but Suharto's family and cronies. Suharto's children came of business age in the 1980s, just as the economy was being liberalized. They used their political connections to secure business licenses, access to state credit, tax breaks and the right to run government monopolies. When the financial crisis hit, Suharto would be forced to choose between protecting his family or Indonesia's economic progress.

Indonesia's economic opening was not accompanied by a political one. Indonesia willingly enmeshed itself in the global economy during the Suharto years, but it fiercely resisted global

pressure in the area of democracy and human rights. Indeed, the New Order regime often linked the two: Economic development required stability, which necessitated a tightly controlled political system and social mores that privileged the community over the individual. During his tenure, Suharto strengthened the state while he emasculated most civic organizations. Relying on economic incentives to coopt regime supporters and military power to coerce regime opponents, Suharto created a patrimonial authoritarian regime that bore little resemblance to a democracy and had little respect for human rights.

During the cold war, Western governments overlooked Indonesia's political repression. With its end, many Western pressured Indonesia to open up politically. This pressure was portrayed as a Western plot to undermine the country's economic and political development. According to Foreign Minister Ali Alatas, linking "extraneous issues such as the environment, labor laws, human rights" in trade and economic cooperation agreements was simply a "new and insidious" way by which Western countries were undermining the economic potential of developing countries.<sup>22</sup>

Indonesia not only rejected external pressure as unwarranted intrusion into its domestic affairs, it was also one of the chief proponents of the "Asian values" movement, a collective effort by some Asian countries to resist globalization in the areas of democracy and human rights. Proponents of "Asian values" argued that the Western emphasis on civil and political rights focused too much on the individual while ignoring economic and community rights. Like its response to economic globalization, Indonesia's "Asian Values" policy was clearly defensive: Absent Western pressure, it is highly unlikely that Indonesia would have devoted the significant amount of time to the issue that it did.

If the Suharto administration resisted global pressure on democracy and human rights issues, many opposition leaders welcomed it. According to human rights activist T. Mulya Lubis, "the government's distinction between universal human rights and indigenous human rights is dangerous and false."<sup>23</sup> Similarly Mochtar Pakpahan, an opposition labor leader, diametrically opposes the government's contention that economic development requires constraints on individual liberty: "Globalization

will continue. If a country [is] without democracy, without the principle of justice and without human rights, I think the country will fail to face the globalization."<sup>24</sup>

By the mid-1990s, Indonesia's political structure was the antithesis of that demanded by the logic of globalization: an open, deregulated economy coexisted not with open, transparent, and accountable domestic institutions but with a closed, patrimonial system. The combination of an open economy and closed polity created enormous opportunity for graft. During the Suharto era, Indonesia consistently ranked among the world's most corrupt countries. Corruption raised the transaction costs of doing business in Indonesia and was one of the reasons Indonesia ranked so poorly in the international competitiveness ratings in *Table 2*.

### **Crisis and Response: Suharto is Toppled by Globalization**

#### *Suharto and the IMF*

On July 2, 1997 Thailand abandoned its longstanding foreign currency peg, triggering a crisis throughout the region as speculators dumped Asian currencies. As in past economic crises, Suharto turned to the technocrats. The technocrats allowed the rupiah to float freely on August 14, earning widespread praise for not wasting the country's valuable foreign exchange reserves in a futile effort to defend the currency. The technocrats then proposed a wide-ranging package of reforms. In contrast to previous crises when Suharto followed the technocrats' advice, he rejected the reform package. As the rupiah continued to slide in international markets, Indonesian firms, which collectively owed approximately \$80 billion of corporate debt to foreign banks, frantically bought the dollars needed to repay that debt. This panic buying only pushed the rupiah lower. At the end of October 1997, Indonesia turned to the IMF.

At the time, Indonesian technocrats approached the IMF less for its money than for the market confidence they believed would come as a result. They also sought IMF support for their efforts to enact liberal economic reforms that Suharto had previously rejected. The IMF proscribed a policy of fiscal tightening, a



reduction of food and fuel subsidies, the closure of sixteen private banks, and the maintenance of high domestic interest rates to make the rupiah attractive to international investors.

Suharto signed the IMF agreement, but many questioned his commitment to implementing it. Two banks with ties to the Suharto family were reopened days after they had been closed under the IMF agreement. Such incidents were taken by observers as evidence that in the inevitable battles between the IMF and his family, Suharto would side with the latter.

On January 6, 1998, Indonesia presented a budget based upon assumptions many considered unrealistic. Viewing this as proof that Suharto was unwilling to respond effectively to the crisis, investors abandoned Indonesian assets. The rupiah lost half its value in five days and panicked Indonesians rushed to purchase food, leaving grocery shelves bare. Fears that Indonesia's problems would deepen and spread throughout the region galvanized outsiders to take action. On January 8, 1998 President Clinton telephoned Suharto and made it "quite clear that the IMF program has to be followed."<sup>25</sup> Clinton's message was reinforced by similar ones from the Japanese Prime Minister and German Chancellor.<sup>26</sup> The IMF drafted a new fifty-point reform package. Addressing criticism leveled at its earlier package, the second IMF agreement eased fiscal conditions and demanded a host of structural reforms that struck at the heart of Suharto's patronage machine.

Under pressure from foreign leaders and financial markets abroad as well as businessmen at home, Suharto signed a second letter of intent with the IMF as its managing director Michel Camdessus stood over him with arms folded across his chest like a stern schoolmaster. As John Bresnan has correctly observed, the photograph of this scene, which was printed repeatedly in the Indonesian press, "became a symbol of the charged issue at the heart of the negotiation—whether the IMF and through it the United States, had the right to dictate terms to the Indonesian government in return for help in restoring confidence in the economy."<sup>27</sup>

Suharto signed the second IMF agreement in an attempt to restore confidence in Indonesia. But his announcement five days later that he was ready to serve a seventh five-year term as President and that his preferred vice presidential candidate was B.J.



Habibie, an economic nationalist who had clashed repeatedly with the technocrats in the past, had the opposite effect. The markets reacted to the prospect of a Habibie vice presidency by sending the rupiah down to 17,000 to the dollar compared with 2,500 in August 1997.<sup>28</sup>

*External Pressure and Internal Dissension Mount*

The market's reaction to Habibie was reinforced by the actions of American and IMF officials who feared Suharto was underestimating the seriousness of the situation. They went to great lengths to ensure that Suharto clearly understood their preferences and the potential costs to Indonesia if they were not reflected in Indonesian policy. U.S. Treasury officials threatened to cut-off aid if Habibie was appointed vice president. Clinton telephoned Suharto twice in one week to reiterate the message, and he dispatched former Vice-President Walter Mondale to carry it personally to Suharto.<sup>29</sup> During the March 3, 1998 meeting with Mondale, Suharto complained that he was being "victimized" and that implementing the IMF agreements would be "suicide."<sup>30</sup> At the same time that Suharto appeared ready to defy proponents of globalization on the vice president issue, his very public discussion of instituting a currency board indicated he was ready to resist them on economic issues as well. Camdessus publicly announced that he would recommend terminating the IMF bailout if Indonesia moved forward with the currency board.<sup>31</sup>

In the end, Suharto acceded to global demands by dropping the currency board proposal; but he defied them on the issue of Habibie. On March 11, 1998, Indonesia's rubber-stamp parliament reelected Suharto and dutifully named Habibie vice president. Suharto still had an opportunity to restore global confidence in Indonesia by appointing economic and political reformers to his new cabinet. Instead, Suharto did the opposite, appointing a cabinet full of politically connected but poorly respected figures. Suharto's eldest daughter Tutut was appointed Minister of Social Affairs, while his golfing buddy and head of the plywood cartel, Mohammad "Bob" Hassan, was appointed Minister of Trade and Industry. The cronies were in and the technocrats were out.

By March, the cost of Suharto's brinkmanship to the average Indonesian was high. Annual inflation was running at 47 percent. Over five and a half million workers had lost jobs since the crisis began, joining the ranks of underemployed that were estimated at 41 percent of the workforce before the crisis hit.<sup>32</sup> As it became clear that in contrast to previous economic crises Suharto was unwilling to swallow the liberal economic medicine required to cure Indonesia's ills, the economic crisis became a political one. Shorn of the legitimacy previously provided by thirty years of economic growth, the man who billed himself as the father of Indonesian development was now politically vulnerable.

Amien Rais, the leader of Muhammadiyah, a modernist Muslim organization that claims over 20 million members, was the first mainstream leader to blame the crisis on Suharto and call for his removal. Students and other activists began calling for political change. On the same day that Suharto took his oath as president, over 25,000 students demonstrated in Gajah Mada University. The economic crisis provided an opening for democratic reformers to attack the Suharto regime for *korupsi, kolusi, nepotisme* (KKN)—corruption, collusion, and nepotism—that they contended had led to the crisis. The eradication of KKN “has become a shorthand for demanding good governance” and the rallying cry of Indonesia's reformasi or democratic movement.<sup>33</sup>

Faced with an economy that continued to deteriorate and political protests that continued to rise, Suharto agreed to a third IMF package on April 8, 1998. The IMF agreement obligated Indonesia to reduce government subsidies of gasoline by October. Rather than lift the subsidies gradually, it was announced on May 4 that subsidies were being cut immediately and would result in a 70-percent increase in the price of gasoline. The announcement triggered large-scale rioting and looting. Student activists, who had previously obeyed laws that restricted their protests to university campuses, now took to the streets. Three days later, troops fired on a group of students returning to Trisakti University, killing four. The funeral for the slain students on May 13 attracted a huge procession that degenerated into riots and looting. Over the next three days, mobs burned hundreds of homes and looted shops, targeting those owned by ethnic Chinese. As Jakarta went up in flames, an estimated

150,000 people, mostly Chinese Indonesians and foreigners (including the IMF team), left the country. By the time order was restored, over 1,000 Indonesians were dead and thousands of shops and houses were destroyed.

By this point, even those most loyal to Suharto realized that he was the problem, not the solution. On Monday, May 18th, Harmoko, the Speaker of Parliament and a long-time Suharto ally, shocked the nation when he called upon Suharto to resign by Friday or face impeachment. With pressure mounting outside in the streets and support eroding from within, Suharto resigned on May 21, 1998. Suharto had battled against globalization and lost.

### **The Habibie Administration**

Suharto's resignation opened the door to a new political era in Indonesia but the country's severe political and economic problems remained unsolved. Indonesia's economy was in shambles at the time Suharto fell in May 1998. Inflation was running at 80 percent, output was down, the rupiah hovered at one-third its pre-crisis value, and the price of rice had tripled.<sup>34</sup> By the end of 1998, the Indonesian economy had contracted by almost 14 percent, the sharpest decline of any economy since the Great Depression of the 1930s. Given the severity of the economic crisis, the new administration felt it had little choice but to renew Indonesia's commitment to the IMF agreement even though Habibie was Indonesia's leading economic nationalist and economic populists were well represented in his cabinet.

It is one the great ironies of the current era of globalization that Indonesia's adherence to IMF policies has resulted in the de-facto nationalization of most of the country's banking system and much of its corporate sector. By the end of 1998, nearly all of Indonesia's banks were bankrupt and an estimated two-thirds of all outstanding loans were thought to be non-performing. Unable to collect their debts, banks stopped new lending, starving even viable companies of working capital. In an effort to recapitalize the banking system, the government followed the advice of the IMF and created the Indonesian Bank Restructuring Agency (IBRA). Banks failing to meet a capital adequacy ratio of 4 per-

cent are subject to takeover by IBRA. IBRA then assumes the debts of the banks under its control, thereby providing a government guarantee to bank creditors. The cost of bailing out Indonesia's banks is estimated at approximately \$80 billion.<sup>35</sup>

With more than \$60 billion of assets under its control, IBRA has become Indonesia's economic colossus. According to IMF plans, IBRA's dominance of the Indonesian economy is only temporary. Over time, IBRA will sell the assets it has acquired to generate the income needed to finance at least part of the bailout. According to the liberal economic logic underlying the IMF plan, IBRA should sell the assets under its control to the highest bidder in order to maximize its return and reduce the cost of the bailout to the Indonesian taxpayer. But with much of corporate Indonesia bankrupt, the likely buyers will be foreigners or Chinese Indonesians, neither of which group is politically attractive to any Indonesian administration.

The logic of market efficiency at the heart of the IMF plan runs counter to popular opinion, which views IBRA's current control of many Chinese conglomerates as a once in a generation opportunity to redress the ethnic imbalance of wealth. Economic nationalists can be divided into two groups on this issue. First, proponents of Muslim business interests, often represented politically by the PPP and Islamic factions of PAN and Golkar (the ruling party in the Suharto era), want the government to retain ownership of many Chinese-owned businesses and use them to create a series of state enterprises that would foster the growth of a *pribumi* business class. This group points to the success of Malaysia's New Economic Policy (NEP) in creating a Malay business class and argues that the assets currently held by IBRA could form the core of an Indonesian NEP. A second group advocates the retention of some of IBRA's assets. It consists of secular nationalists associated with Megawati's PDI-P party who advocate greater state control of the economy. Economic populists, such as Adi Sasono, Minister of Cooperatives under Habibie, would like to use IBRA's assets to support a larger role for cooperatives and to subsidize credit and training to small businesses and the agricultural sector.

In the political arena, Indonesian reformers and external advocates of globalization such as the IMF both wanted to eradicate the arbitrary political and economic practices of the Suharto

era and replace them with clean, transparent, and accountable government institutions. Vice President Habibie's elevation to the presidency was acknowledged as constitutional. But as Suharto's long-time protege, Habibie was considered an illegitimate leader by many reformers. Habibie attempted to shore up his democratic credentials by enacting a series of reforms unthinkable during the Suharto era. He freed the press, released political prisoners, lifted restrictions on labor organizations, and promised free elections. Parliamentary elections, held on June 7, 1999, were the first free and fair elections held in Indonesia since 1955. Over 100 million Indonesians voted in an election contested by forty-three political parties. In a stark contrast to elections held under Suharto, the ballots were opened and counted at the polling stations in full view of the voters, a great victory for democracy.

The PDI-P led by Megawati Sukarnoputri, daughter of Indonesia's first president, emerged as the front-runner with 33.7 percent of the votes. Golkar came in second with 20 percent of the vote. This meant that four out of five Indonesians voted against the status quo represented by Golkar, a clear victory for reformers. PKB, the party of Abdurrahman Wahid, won 12.6 percent of the vote while PPP, the Suharto-era Islamic party, won 10.7 percent and PAN, the party of Amien Rais, won 7 percent. No party achieved a victory sufficiently decisive to govern on its own. In the four-month period between the elections and the convening of the parliament, the need to form a coalition combined with Indonesia's arcane political rules produced back-room political dealings that contrasted sharply with the openness of the elections.

Under Indonesia's complex indirect presidential system, the electorate voted for 462 of Parliament's 500 members; the military appoints the remaining 38 members. However, Indonesia's president is chosen not by parliament but by the People's Consultative Assembly, which includes the 500 members of Parliament and 200 members appointed by regional parliaments and "functional groups" such as women, farmer, and workers organizations. Therefore, 30 percent of the members of the Consultative Assembly not directly elected are under no obligation to choose a president who reflects the desires of the Indonesian electorate. Many reformers feared that the status-quo forces would engineer the reelection of President Habibie by reverting

to KKN practices. In the end, however, the publication of precisely such an attempt as revealed in the Baligate scandal doomed Habibie's hopes of becoming more than a transitional president.

*Baligate: KKN Challenges to Political and Economic Reform*

Just as the strongest challenge to the technocrats in the Suharto era came from Suharto's family and cronies, the strongest challenge to IBRA's ability to function according to liberal economic logic came from Habibie's political cronies. The Baligate saga clearly illustrates the tension between global institutions and Indonesian reformers, who demand open, transparent, and accountable practices, and the status-quo forces resisting them to protect the corrupt system from which they have long benefited.

The Baligate scandal arises out of a 546-billion rupiah fee that Rudi Ramly, Managing Director of Bank Bali, paid to a company named Era Giat Prima for assistance in helping Bank Bali collect 904 billion rupiah owed to it from three banks that had been taken over by IBRA. At the time, Ramly was struggling to collect these debts in order to meet IBRA's capitalization requirements and forestall Bank Bali's takeover by IBRA. IBRA claims the transaction was illegal, since it guaranteed the funds to Bank Bali. Ramli claims that repeated pleas to IBRA to make good on its guarantee went unheeded and he agreed to pay the fee—which amounted to over 50 percent of the original debt—in a desperate attempt to save his bank. Ramli was ultimately unsuccessful and Bank Bali was taken over by IBRA. The transaction came to light in August 1999 when Britain's Standard and Chartered Bank was conducting a due diligence report after agreeing to acquire an ownership stake in Bank Bali.

The economic scandal turned into a political scandal when it was revealed that Era Giat Prima is controlled by Setya Novanto, Deputy Treasurer of Golkar and a close Habibie associate. Ramli has alleged that Golkar officials pressured him into agreeing to the deal and that the funds were to be used to buy votes for Habibie in the presidential election. Novanto was part of an informal group of Habibie allies dubbed Tim Sukses or team success in charge of Habibie's reelection campaign. Ramli's accusation is supported by IBRA Chairmen Glenn Yusuf. Testi-

fyng before a parliamentary panel on September 13, he said that Baramuli, chairman of the Supreme Advisory Council and close Habibie ally, met with him on July 30, shortly before the scandal broke, and pressured him to assist in a coverup, threatening that "If you don't, Tanri could become involved, I could become involved and the president could be dragged in."<sup>36</sup>

Under strong pressure from the IMF, Habibie agreed to an investigation of the Bank Bali case and hired PricewaterhouseCoopers (PWC) to conduct the audit. On September 7, PWC submitted a 123-page report to head of the State Audit Agency, Satrio Joedono. The report was damning, naming officials and linking close aides of President Habibie to the illegal transition. Joedono instructed PWC to prepare a shorter version, which omitted names, and this sanitized thirty-six page report was made public. The report said it found "preferential treatment, concealment, bribery, corruption, and fraud" in connection with the Bank Bali transaction and that "ministers, senior officials, and members of parliament appear to be involved."<sup>37</sup>

The release of the sanitized report triggered demands by Indonesian reformers and the IMF that the full report be released. The IMF declared it would not resume lending until the full report was made public.<sup>38</sup> Hubert Neiss, the IMF's director for the Asia-Pacific region, argues that the solution to Baligate is prompt and total transparency and believes that "Eventually, this audit will go on a Web site."<sup>39</sup>

The Baligate scandal riveted Indonesia. What was most shocking was not necessarily the revelations themselves, which confirmed longstanding suspicions of corrupt ties between business and government, but the fact that Habibie refused to accede to public demands for accountability. Habibie took no action against government officials accused of wrongdoing. He not only rebuffed calls to suspend Baramuli, the chairman of the Supreme Advisory Council who is deeply implicated in the Baligate scandal, but also ensured that he was elected to the People's Consultative Assembly. Habibie's action created a groundswell of opposition and ultimately contributed to his downfall.

### *The Nationalist Backlash Against Global Pressure on East Timor*

President Habibie's attempt to remove East Timor as an irri-



tant in the country's foreign policy had the unintended consequence of leading to widespread condemnation of Indonesia by the international community. The attempts by foreign countries and international organizations to condition their policies toward Indonesia upon changes in its policy toward East Timor had long frustrated Indonesia. Indonesia opposed the UN votes on East Timor and U.S. congressional restrictions on military assistance to Indonesia. In 1992 Suharto responded to strong Dutch criticism over East Timor by borrowing a refrain from Sukarno and telling the Dutch to "go to hell with your aid."

In early February 1999, Habibie shocked Indonesia and the international community when he announced that he would permit a referendum offering the East Timorese independence from Indonesia. Habibie apparently made the decision alone, in a fit of pique after receiving a letter from Australian Prime Minister John Howard urging Habibie to reconsider Indonesian policy. The Indonesian military (TNI) was furious at Habibie's decision. Not only was it opposed to the potential loss of sovereign control over East Timor; it also feared the referendum could serve as a precedent for other restless provinces and ultimately threaten the territorial integrity of the Indonesian state that the military is sworn to uphold.

On August 30, 1999 the citizens of East Timor voted overwhelmingly in favor of independence from Indonesia in a referendum conducted by the United Nations. In the aftermath of the vote, pro-Indonesia militias and members of the Indonesian military unleashed a wave of terror: attacks on United Nations personnel; attacks on religious leaders and institutions; the burning of houses and public buildings; the forced movement out of East Timor of tens of thousands; and the systematic execution of suspected independence sympathizers.

The Indonesian military attempted to prevent news of these actions from reaching the outside world. TNI destroyed the territory's telephone system, threatened journalists, and refused to restock and protect the UN compound. But TNI could not control the satellite communications systems that connected a number of journalists and UN workers to the outside world through their cellular phones. Throughout the crisis, they bore witness to the events in East Timor, frustrating TNI's attempts to deny the atrocities. "The army has been using tactics lately that are 15 or



20 years out of date," commented one senior ambassador in Jakarta. "It will have to learn that these tactics are unsuitable for an era of globalization when you've got a free press and the world is watching."<sup>40</sup>

The atrocities in East Timor were swiftly condemned by the international community. Under intense foreign pressure that included threats to cut off economic aid, Indonesia agreed to permit a foreign peacekeeping force authorized by the UN into East Timor to restore order.

Most Indonesians were stunned at how quickly foreigners, particularly Westerners, were to treat Indonesia as a pariah state. An area of 800,000 people in a country of 210 million, East Timor had never received much attention in Indonesia. Moreover, until Habibie lifted restrictions on the press, all news from East Timor came via state-controlled agencies. Largely unaware of the true history of East Timor, most Indonesians accepted the official version of events and expected that the referendum would prove favorable to Indonesia. International condemnation of Indonesia, therefore, came as a shock to many Indonesians and triggered a rise in nationalism. Prior to events in East Timor, blatant anti-Westernism tended to be confined to the radical fringe in public. Fadli Zon presented the radical Muslim worldview of the IMF agreement in March 1998 when he argued that the "IMF provisions are impossible. They make everything cheap for foreigners. Soeharto only signed the agreement because it was a crisis situation, but most Indonesians do not agree with the IMF package. The IMF does not want to help us. It would be better for us to close the country like Myanmar."<sup>41</sup>

These sentiments may have been radical in mid-1998 but they have now entered mainstream discourse. *Kompas*, an influential Indonesian-language daily, expressed the views of many when it accused the West of double standards:

The presence of a UN peacekeeping force in East Timor is the result of continuous pressure against us. The international reaction to East Timor's problems has removed the mask of Western governments. Previously they supported invasion, now they threaten us. In the past, they sent war arms to fight the Timorese. Now they have stopped.<sup>42</sup>

Top political leaders have contributed to this discourse, which

paints Indonesia as the victim of hostile external forces. Prior to his election as president, Abdurrahman Wahid called for an "anti-UN jihad."<sup>43</sup> Megawati, who owes much of her political support to the popularity of her father's staunch nationalism, had initially opposed the East Timor referendum. She laid the blame for strained relations between Indonesia and the outside world on unwarranted global pressures. Discussing ways to repair Indonesia's relations with the international community at the height of the crisis over East Timor in September 1999, Megawati declared: "First, the international community should halt the demonization of the Indonesian people. We know too well about violence and human rights, but as victims, not perpetrators."<sup>44</sup>

The rise of nationalism in Indonesia has taken on an anti-Western tone. The backlash began as anti-Australian, then became anti-West and now is becoming anti-white. According to Dewi Fortuna Anwar, former Presidential Advisor on Foreign Affairs under Habibie:

People are no longer focusing on what happened in East Timor, but on how Indonesia has been insulted. . . . There's always been a suspicion of white people in general . . . The feeling is always there. Indonesia has always been very touchy about being pushed around by outside countries.<sup>45</sup>

In short, Habibie's attempts to respond to global pressures for a referendum on East Timor by holding it went horribly awry. In large part this was due to Habibie's failure to appreciate the depth of TNI's opposition to any action that threatens Indonesian sovereignty over its current territory. The fallout from events in East Timor also illustrates that Indonesia's progress toward democracy has not changed its defensiveness toward undesired pressure, particularly when it comes from the West.

### **The Wahid Administration**

The People's Consultative Assembly met in October 1999 in the aftermath of the Baligate scandal and the East Timor debacle to choose a new Indonesian president. Habibie, required to give an accountability speech, was humiliated when it was rejected.

He was blamed for Baligate, the loss of East Timor, and his failure to bring corruption charges against Suharto. Although no constitutional provision required him to do so, Habibie withdrew from the presidential race. The Consultative Assembly's censure of Habibie and Habibie's acknowledgment of this censure represented a significant empowerment of Indonesia's traditionally weak Consultative Assembly and an important step toward creating an accountable political system.

Habibie's withdrawal paved the way for the election of Muslim cleric Abdurrahman Wahid as Indonesia's fourth president on October 20. The next day, Megawati was chosen vice president. The election of two popular, reformist leaders not only heralded a new chapter in Indonesian domestic politics; it also created an opportunity to restructure Indonesia's badly damaged relationships with international organizations and foreign governments. At the time of this writing, the Wahid administration is six weeks old and although it is far too early to make any definitive conclusions, there is an apparent congruence between the declaratory policies of the Wahid administration and the values embedded in globalization.

The background of many of the new government officials and their initial policy statements indicate a strong commitment to democracy and human rights. Wahid has long been a leading advocate of religious tolerance, protection of minority rights, and democratic values. Key cabinet officials have pledged to conduct government policy in an open and transparent manner and reject KKN. The appointment of Marzuki Darusman, Chairman of the National Human Rights Commission, as Attorney General is widely viewed as a sign that Wahid is committed to developing an accountable legal system.

Indonesia has moved quickly to repair its relations with the IMF and international donors. Kwik Kian Gie, Coordinating Minister for the Economy, pledged to cooperate with the IMF and quickly released the full PWC audit of the Baligate scandal, a precondition to the resumption of IMF aid. Wahid has spent much of his first month in office traveling abroad seeking international economic assistance and attempting to convince Chinese Indonesians that it is now safe for them to return.

*A Questionable Commitment*

Despite this apparent congruence between the policies of the Wahid administration and the values of liberal economics, democracy, and human rights that it promotes, it is unlikely that Indonesia's future stance toward globalization will remain positive. Prominent voices have advocated policies that are popular in Indonesia but not with global markets and institutions. Sri Mulyani Indrawati, a respected economist, has argued that Indonesia should not be responsible for repaying that portion of the country's public debt that international lenders knew would be lost to corruption. Internal World Bank documents leaked in 1998 included the "estimate that at least 20-30 percent of GOI [Government of Indonesia] development budget funds are diverted through informal payments to GOI staff and politicians and there is no basis to claim a smaller 'leakage' for Bank projects as our controls have little practical effect on the methods used."<sup>46</sup> Sri Mulyani contends that this 20-30 percent is "criminal debt" that should be written off by international lenders rather than burden Indonesian taxpayers who did not benefit from the loan proceeds.

In addition, many of the government leaders currently supporting liberal policies have advocated radically different policies in the past. Kwik Kian Gie, Indonesia's top economic official, is a long-time critic of Suharto's economic policies and a key Megawati advisor known for his nationalist views. In the past, Kwik advocated a fixed exchange rate and capital controls. If Kwik represents a secular-nationalist position on the economy, Wahid himself embodies the economic populist perspective. While acknowledging that Indonesia has little choice but to continue with the IMF program, he has nevertheless called for revisions that would increase aid to the rural sector. Attempting to put relations with the new administration on a solid footing, the IMF has agreed that "the request to place emphasis on small- and medium-sized companies and agriculture can be accommodated."<sup>47</sup> During the Suharto era, liberal economic policies were adopted during economic crises and abandoned when the economy had improved. Given that Wahid's cabinet is populated largely with economic nationalists and populists, a similar pattern of policy shifts may occur in the future.

Finally, although the Wahid administration is determined to restore Indonesia's international image, Indonesia appears to be reorienting its foreign policy away from the West. Like Wahid, Indonesia's new foreign minister, Alwi Shahib, was educated in Egypt and Iraq and has called for a new foreign policy oriented toward Asia and the Middle East. Wahid has called for a strengthening of Indonesia's relationships with the two Asian giants, China and India. Wahid made a short visit to the United States where he stated that Indonesia's new policy focus did not imply a lessening of the importance it placed on its relationship with Washington. But Indonesia's new foreign policy can easily be interpreted as a defensive mechanism against Western pressure designed to provide Indonesia with alternatives sources of international support and capital.

### Conclusion

This article has attempted to illustrate that in Indonesia, globalization is viewed neither as the wholly progressive force portrayed by globalization enthusiasts nor the pernicious force described by its critics. Instead, government and societal actors have welcomed globalization when it supported their pursuit of wealth, power, or a just society and resisted it when it did not.

Indonesia's future responses to globalization will be determined by a number of factors. First, there is an increasing tendency in Indonesia to view globalization as Westernization. As this article makes clear, the "global" actors in the Indonesian drama—Michel Camdessus, President Clinton, or Australian Prime Minister Howard—have mostly been Western. This tendency to view globalization as Westernization, combined with the rise of Indonesian nationalism, means that periods of tension in Indonesia's relationship with the West could affect its globalization policies.

Second, Indonesia's new political openness will probably make it more difficult for proponents of liberal policies to win policy debates. Under the New Order regime, Suharto could shield the technocrats from their critics when he chose to do so. That is no longer possible today. As the previous discussion made clear, liberal capitalism attracts few followers in Indonesia

outside technocratic circles, and it is likely that economic nationalists and populists will come out on top in policy debates.

Finally, the speed with which Indonesia's economy recovers will be a key factor determining which of these scenarios unfolds. The longer and more arduous the recovery, the greater the potential for bitter policy disputes between Indonesia and global actors. Policy disputes could trigger a vicious circle in which Western pressure heightens Indonesian perceptions of "victimization" and ultimately leads its leaders to conclude that globalization is a pernicious force to be resisted.

Given Indonesia's sensitivity to outside pressure, its antipathy to liberal capitalism, and the perception among many Indonesians that globalization caused the AFC, it is unlikely to embrace globalization as a wholly progressive force. Nevertheless, Indonesia's reluctant acceptance of globalization could still produce a healthy policy response to its challenges. Key global actors appear determined to use the inauguration of the Wahid administration as an opportunity to improve relations with Indonesia. President Clinton adjusted his schedule to meet Wahid during a hastily-scheduled meeting and the IMF has agreed to accommodate Wahid's preferences for greater attention to agricultural policies. The more Indonesia is treated with the respect it seeks from Western countries and global institutions, the more likely it is to trigger a virtuous circle of Indonesian policy responses toward globalization.

## NOTES

1. President Suharto, Speech at the Summit of the D-8, Istanbul, Turkey, June 15, 1997; online at [www.dfadeplu.go.id/english/ralatril.htm](http://www.dfadeplu.go.id/english/ralatril.htm)
2. "Indonesia: Towards the Final Countdown?" *Southeast Asian Affairs*, 1997, p.109.
3. Throughout this article, "economic globalization" will be used interchangeably with "demands for the adoption of liberal economic policies."
4. Radius Prawiro, *Indonesia's Struggle for Development* (Kuala Lumpur: Oxford University Press, 1998), p. 312.
5. Sukardi Rinakit and Hadi Soesastro, "Indonesia," in Charles Morrison

- and Hadi Soesastro eds., *Domestic Adjustments to Globalization* (Tokyo: Japan Center for International Exchange, 1998), p. 199.
6. *Ibid.*, p. 193.
7. Prawiro, *Indonesia's Struggle*, p. 321.
8. Cited *ibid.*, n. 11, pp. 328-329.
9. Rinakit and Soesastro, "Indonesia," p. 193.
10. *Ibid.*, p. 194.
11. Cited *ibid.*, p. 202.
12. Prawiro, *Indonesia's Struggle*, p. 315.
13. Juwono Sudarsono, *The Challenges to Indonesia's Resilience* (Jakarta: National Resilience Institute, 1996), p. 5.
14. Hal Hill, *The Indonesian Economy Since 1966* (New York: Cambridge University Press, 1996), p. 4.
15. *Ibid.*, p. 5.
16. Prawiro, *Indonesia's Struggle*, p. 301.
17. Sjarir, "The Struggle for Deregulation in Indonesia," in Ian Chalmers and Vedi R. Hadiz, eds., *The Politics of Economic Development in Indonesia* (New York: Routledge, 1997), p. 155.
18. Ginandjar Kartasamita, "To Build Economic Resilience," *ibid.*, p. 169.
19. Enin Supriyanto, "Growth-Oriented Development Strategies and Authoritarianism," *ibid.*, pp. 197-198.
20. Suharto, "The State of the Nation," *ibid.*, p. 185.
21. These figures are from the charts in Ross H. McLeod and Ross Garnaut, eds., *East Asia in Crisis* (New York: Routledge, 1998), pp. 23-27.
22. Ali Alatas, Speech to the Group of 77, January 13, 1998.
23. Adam Schwarz, *A Nation in Waiting* (Boulder, Colo.: Westview Press, 1999), p. 257.
24. Cited in the Public Broadcasting Stations (PBS) series "Globalization & Human Rights"; online at [www.pbs.org/globalization/roleof.html](http://www.pbs.org/globalization/roleof.html).
25. John Bresnan, "The United States, the IMF, and the Indonesian Financial Crisis," in Adam Schwarz, ed., *The Politics of Post-Suharto Indonesia* (New York: Council on Foreign Relations Press, 1999), p. 53.
26. *Ibid.*
27. *Ibid.*
28. *Ibid.*, p. 94.
29. *Ibid.*, pp. 93-95.
30. *Ibid.*, p. 95.
31. *Ibid.*
32. *Ibid.*, p. 96.
33. Hadi Soesastro, *Globalization, Governance and Sustainable Development* (Jakarta: CSIS, 1999), p. 2.
34. *Ibid.*, p. 100.
35. Dan Murphy, "Standard Treatment," *Far Eastern Economic Review*, December 2, 1999.
36. Dan Murphy and John McBeth, "Follow the Money," *Far Eastern Economic Review*, September 23, 1999, p. 12.

37. *Ibid.*, p. 12.
38. *Ibid.*, p. 11
39. Press release, *Far Eastern Economic Review*, September 23, 1999.
40. Seth Mydans, "Army Pullout Shows Indonesia Fault Lines," *New York Times*, September 19, 1999.
41. Schwarz, p. 348.
42. Derwin Pereira, "Jakarta Cave-in Sparks Anger," *Straits Times* (Singapore), September 14.
43. Keith Richburg, "Humiliated Indonesians Direct Anger at the West," *Washington Post*, September 19, 1999.
44. "MEGAWATI: I am Saddened, Ashamed, Concerned," *Newsweek International*, September 20, 1999.
45. Richburg, "Humiliated Indonesians."
46. Schwarz, *Nation in Waiting*, p. 316.
47. "Indonesia's Wahid Wants IMF Program to Include Agriculture, Small Business," *Dow Jones Newswires*, November 3, 1999.